

Message Text

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ACTION AF-08

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CAPE TOWN FOR EMBASSY

E.O. 11652: N/A
TAGS: EMIN, BEXP, SF
SUBJECT: US INVESTMENTS IN SOUTH AFRICAN GOLD MINES

1. WE ARE POUCHING SEPARATELY TO WILLIAM EATON, AF/S, THREE COPIES OF A RECENTLY OBTAINED REPORT BY DAVIS, BORKUM, HARE COMPANY (MEMBER, JOHANNESBURG STOCK EXCHANGE) TITLED "FOREIGN HOLDINGS IN SOUTH AFRICAN GOLD MINES". THE REPORT WILL BE OF TIMELY INTEREST TO THE DEPTS OF STATE, COMMERCE AND INTERIOR (BUMINES), SPECIFICALLY BECAUSE OF ITS NOTABLE EMPHASIS ON CURRENT US INVESTMENTS IN SOUTH AFRICAN GOLD MINES.

2. THE REPORT REFLECTS A STUDY OF 31 SOUTH AFRICAN GOLD MINING COMPANIES CONTROLLED BY ANGLO AMERICAN, ANGLO TRANSVAAL, BARLOW RAND, GENERAL MINING, GOLD FIELDS OF SOUTH AFRICA, JOHANNESBURG CONSOLIDATED INVESTMENT AND UNION CORPORATION. IT SHOWS THAT, THROUGH DECEMBER 31, 1976 US INTERESTS CONTINUED TO DOMINATE OVER ALL OTHER FOREIGN SHAREHOLDERS AND INDEED INCREASED SIGNIFICANTLY

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ABOVE 1975 HOLDINGS -- 1976 GOLD PRICE DECLINES AND POLITICAL CONSIDERATIONS NOTWITHSTANDING.

3. RELYING LARGEMLY ON AMERICAN DEPOSITORY RECEIPTS (ADR'S) ISSUED THROUGH MORGAN GUARANTY (VIA BARCLAYS), IRVING TRUST, FIRST NATIONAL CITY BANK AND OTHER US BASED BANKING HOUSES, US INVESTORS IN 1976 INCREASED THEIR HOLDINGS

BY 13.2 PERCENT TO 24.6 PERCENT IN THE NUMBER OF SHARES HELD THROUGH ADR'S. IN TERMS OF TOTAL MARKET CAPITALIZATION HELD IN ADR FORM, US INTERESTS ACCOUNTED FOR 23.3 PERCENT AT YEAR END 1976 FOR THE MINES INCLUDED IN THE BROKERAGE FIRM'S SURVEY. (CONSULATE CALCULATIONS DEMONSTRATE, ALSO, THAT OF THE TOTAL FOREIGN INVESTMENT IN SOUTH AFRICAN GOLD MINES, US INTERESTS, INCLUDING A LIMITED NUMBER OF SHARES HELD IN THE FORM OF AMERICAN SOUTH AFRICA LIMITED CERTIFICATES, REPRESENTED 64.1 PERCENT, FOLLOWED BY UK AND FRENCH (SICOVAM) SHAREHOLDERS AT 33.7 PERCENT, AND BELGIAN (SOGES) SHARES AT 2.2 PERCENT).

4. CERTAIN FACETS OF THE ABOVE-CITED INCREASES ARE NOTABLY STRIKING. STATISTICS ON EACH OF THE MINES STUDIED REVEAL THAT 6 MINES (LORAIN, DURBAN DEEP, LIBANON, VENTERSDORP, RANDFONTEIN AND GROOTVLEI) SHOW INCREASES OF MORE THAN 20 PERCENT IN ADR HOLDINGS -- AND ALL BUT ONE (RANDFONTEIN) ARE MARGINAL PRODUCERS. CONVERSELY, FOUR OF SIX MINES SHOWING INCREASES LESS THAN 5 PERCENT ARE KNOWN TO BE MEDIUM-TO-HIGH GRADE (UPPER MEDIUM LIFE), "GOOD", OPERATIONS (PRESIDENT BRAND, PRESIDENT STEYN, WESTERN DEEP LEVELS AND HARTEBEESTFONTEIN). THE OTHER TWO, DOORNFONTEIN (WITH ITS QUESTIONABLE LIFESPAN) AND SOUTH AFRICAN LANDS (FOLLOWING ANOUNCEMENTS I 1976 OF AN EARLY CLOSURE), WOULD HAVE BEEN EXPECTED TO EXHIBIT LIMITED SHARE PURCHASE-POWER INTEREST. AS TO ADR MARKET CAPITALIZATION, RANDFONTEIN STANDS OUT WITH A GAIN OF 137.3 PERCENT-- AN INCREASE LARGELY ATTRIBUTED TO A SHARP IMPROVEMTNT IN ITS SHARE PRICE DURING THE YEAR. DURBAN DEEP'S 76.5 PERCENT LIMITED OFFICIAL USE

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INCREASE IN CAPITALIZATION DID NOT FOLLOW THE RANDFONTEIN PATTERN BUT, INSTEAD, ROSE SOLELY ON THE STRENGTH OF A MATERIAL INCREASE IN THE NUMBER OF SHARES ELD THROUGH ADR'S. THERE WERE FIVE INSTANCES OF LOWER MARKET CAPITALIZATIONS RESULTING FROM SUBSTANTIAL DECLINES IN SHARE PRICES, LED BY SOUTH AFRICAN LANDS AND FOLLOWED BY DOORNFONTEIN, VENTERSDORP, WESTERN AREAS AND ELSBERG.

5. ANGLO AMERICAN MINES APPEAR TO HAVE THE LAREST OVERSEAS OWNERSHIP WITH AN UNWEIGHTED AVERAGE OF 51.0 PERCENT (8MINES) (34.5 PERCENT ARE US INTERESTS), FOLLOWED BY BARLOW RAND (4 MINES) (TOTAL FOREIGN OWNERSHIP: 47.1 PERCENT; US: 28.1 PERCENT), ANGLO TRANSVAAL (2 MINES) (FOREIGN OWNERSHIP: 42.3 PERCENT; US: 28.0 PERCENT), GOLD FIELDS OF SOUTH AFRICA (6 MINES) (FOREIGN OWNERSHIP: 39.1 PERCENT; US: 24.0 PERCENT), JOHANNESBURG CONSOLIDATED INVESTMENT (3 MINES) (FOREIGN OWNERSHIP: 35.4 PERCENT; US: 22.7 PERCENT), UNION CORPORATION (6 MINES) (FOREIGN OWNERSHIP: 33.3 PERCENT; US: 20.3 PERCENT) AND GENERAL MINING (2 MINES)

(FOREIGN OWNERSHIP: 29.6 PERCENT; US: 21.6 PERCENT).

6. COMMENT: RRO SWEETWOOD DISCUSSED DAVIS, BORKUM, HARE & COMPANY'S REPORT WITH CO-AUTHOR ANDERS ALSEN TO ATTEMPT GAIN INSIGHT AS TO REASONS FOR THE 1976 INCREASE IN US INTEREST IN SOUTH AFRICAN GOLD AND THE OUTLOOK. ALSEN STATED THAT PRIOR TO THE PUBLICATION OF HIS REPORT, COMPANY FINDINGS WERE PRESENTED INFORMALLY TO "SEVERAL OTHER MEMBERS OF THE JOHANNESBURG STOCK EXCHANGE" FOR THEIR VIEWS IN THIS REGARD. HE SAID ALL HELD THAT US INCREASES WERE MOTIVATED BY GOLD PRICE SPECULATION (SINCE PROVED CORRECT; VIZ. RECENT GOLD PRICES RISES) COUPLED WITH BELIEF IN US THAT RECESSION (IN US) HAD BOTTOMED OUT, WHILE MASSIVE MINE EXPANSION PROGRAMS IN SOUTH AFRICA DURING PERIOD OF GOLD PRICE SLUMP MADE NEW INVESTMENTS FAVORABLE. SOUTH AFRICAN BUSINESS HOUSES ARE FACINATED BY THE DIRECTION TAKEN BY US INVESTORS, HOWEVER--I.E. SHAREHOLDINGS IN MINES THAT SOUTH AFRICAN INVESTORS ARE SHYING AWAY FROM BECAUSE OF SUCH CONSID- LIMITED OFFICIAL USE

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ERATIONS AS LIMITED LIVES, LOW GRADE ORES AND RELATIVELY HIGH MINING COSTS. ASKED IF US INVESTORS WERE, IN REALITY, LOOKING TOWARD SOUTH AFRICA'S FUTURE IN GOLD/URANIUM AS OPPOSED TO GOLD ALONE, ALSEN INDICATED THAT HE AND HIS COLLEAGUES COULD FIND NO EVIDENCE TO SUPPORT THIS POSSIBILITY. HE AGREED HOWEVER, THAT SOME UNKNOWN PERCENTAGE OF THESE INVESTORS, WOULD UNDERSTANDABLY LOOK TOWARD THE LONGER RANGE (AND THUS IMPROVED RETURNS FROM UPCOMING EXPANSION PROGRAMS IN GOLD/URANIUM RECOVERIES), BUT THAT THE LONG-FAMILIAR SHORT TERM GOLD SPECULATORS "PROBABLY PREDOMINATE". AS TO OUTLOOK, ALSEN OPINES THAT THE CONTINUING INTEREST IN SOUTH AFRICAN GOLD SHARES MAY WELL GATHER MOMENTUM IN 1977, WITH US INVESTORS EVEN FURTHER OUTSTRIPPING THEIR FOREIGN COUNTERPARTS AS TO NUMBER OF SHARES PURCHASED AND HELD "ON THE GOLD BANDWAGON". END COMMENT.
JOHNSON

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